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ACCOUNTING AND REPORTING FOR GOVERNMENT CONCESSIONS

Report by the UNCTAD secretariat */

Summary

At its twelfth session the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting considered the report "Accounting for Government Grants and Concessions (E/C.10/AC.3/1994/6)" and a conclusion was reached that accounting for concessions deserved further and more detailed attention to certain issues. It is for this purpose that this report has been prepared. This report covers accounting for various types of government concessions: services contracts; build/operate/transfer transactions (BOT); concessions for the use or operation of public assets; management contracts and various other privileges or advantages given by governments to enterprises. The principles contained in this report could be useful to international and national standard setters in the formulation of accounting standards because currently there are no standards which specifically address the majority of these transactions.

*/ This report was prepared with the assistance of Professor Lazaro Placido Lisboa, University of Sao Paulo, Brazil.

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INTRODUCTION

1. This report is intended to give guidance on accounting and reporting issues relating to concessions received from governments because at the present time there is no comprehensive international standard in this area. In some developing countries and countries in transition, concessions are very significant and widely used to attract foreign direct investment and technology. Concessions may be used even more intensively in the future because the arrangements allow governments to shift the provision of public services to the private sector allowing the government to concentrate on activities which have greater priority and/or which are non-transferable. Hence, there is a growing demand for addressing this topic.

2. Concessions can be, and frequently are, granted by national, regional (state) or municipal governments (herein called the grantor) to an enterprise (referred to as the grantee or concessionaire), which may be publically-held or privately-owned or could be quasi-governmental, to operate a public service, carry out public works or make use of public assets. The concessions are usually for a fixed and possibly long-term period during which the enterprise provides the management and other personnel and assumes certain operating risks.

3. Concession contracts are divided into three common basic types, as follows:

(a) service contracts (also called contracting out transactions and concessions of public services);

(b) build/operate/transfer transactions (also called concessions of public works); and,

(c) concessions to use and/or operate public assets.

Usually, the concession of the right to carry out a public service, a public work project or to make use of public assets is made through a tender offering by the grantor in which each applicant presents a proposal comprised of the terms of the contract, the estimated capital and operating costs, the compensation price and the means of payment, among other details. In this manner the successful applicant will then undertake the activity in accordance with the terms and conditions which the grantor proposes.

4. The following paragraphs describe the characteristics of each of the above three types of concession contracts and the accounting treatment for transactions under the various arrangements. Other types of transactions between governments and enterprises which are not exactly government concessions but which should be treated as such are also considered in this report.

I. GENERAL CONCEPTS

5. Revenues and costs incurred in connection with concession agreements should normally be accounted for on an accrual basis. Before a concession contract is issued by a government body, any costs incurred by the prospective grantee, particularly in connection with obtaining the concession, should usually be recorded as expenses of the period in which they have been incurred. However, such costs may be deferred if the prospective grantee has reasonable evidence that the concession will be granted and the costs are clearly and specifically associated with the potential project.

6. When the grantee has to pay for the right to be granted a concession, this payment would usually be in the form of a front-end fee. The payment, or the incurrance of a liability to make a future payment, should be capitalized by the grantee as an intangible asset and amortized on a straight line basis over the

life of the concession or on a proportional method in relation to operating income if that would achieve a better matching of costs and revenues. If the transaction calls for the transfer of shares of the operating enterprise, or of another enterprise, as consideration for the value of the concession, the grantee should record the value of the concession obtained as an intangible asset subject to amortization with a corresponding credit in the appropriate stockholders' equity accounts for the fair value of the rights received or of the shares of stock, whichever is the most accurately estimable.

II. SERVICE CONTRACTS

7. These types of arrangements are usually specified within a contract in which the government grants an enterprise the right to carry out a specific public service using its own management and incurring the operating risks for a fixed time period. The enterprise is entitled to charge consumers for the services rendered at rates which include a profit margin. Service contracts may also provide for a specified sum of money to be paid by the grantee to the grantor. The grantee sometimes uses assets owned by the grantor which are returnable at the end of the contract together with any additional assets which the grantee owns. Examples of such assets are buildings which are constructed on public land and used by to the grantee during the period of the contract. Among the most common examples of public services operated by private sector and quasi-governmental enterprises through government concessions are gas, water, electric energy, telephone, public transport, garbage collection and public sanitation services.

A. Accounting treatment for rights to operate public services

8. The right to operate a public service may be granted either free or at a cost to the grantee. If the right is granted for a specified amount that is paid in advance, or for which there is an obligation to pay a defined fee at a later date, the cost of the right should be recorded as an intangible asset of the enterprise. This asset should then be amortized over the term of the contract on a straight line basis or on some other rational method that matches the expense for the accounting period with the benefits derived from the agreement.

9. Another type of transaction could be for an amount equal to the accumulated amortization of the intangible asset (the cost of the rights) to be paid to the grantor at the conclusion of the concession instead of in advance. However, the timing of the payment should have no effect on when the expense is recorded in the accounts. If the cost is paid monthly, the payment should be charged to an expense account in the records of the enterprise unless there is a mis-matching of the amount of the payment with the benefits received.

10. It is also conceivable that the consideration given to the government could be an equity interest in the grantee. This often occurs when a corporation is formed specifically for the purpose of being the recipient of a concession contract. In this situation the enterprise should record the fair value of the rights obtained as additions to its stockholders' equity accounts.

11. In other situations the concession rights might be granted at no cost. Regardless of whether or not there is a cost involved, the grantee should disclose the existence of the rights and the benefits to be derived therefrom in the notes to its financial statements, including details on the obligations which arise under the agreement.

B. Accounting for assets used in the operations of a concession

12. From an accounting point of view, one of the most controversial aspects of concessions occurs when assets owned by the grantor are transferred to the grantee for operating purposes. If the concession agreement calls for the grantee to pay the grantor for the assets, the following could occur:

(a) the grantee could immediately pay cash for the assets or agree to make payments at a later date. In this case, the grantee should record the fixed assets and liabilities, if any, on the records of the operating enterprise.

(b) the grantee could exchange shares of stock of the operating enterprise, or of another enterprise, as consideration for the value of the operating assets transferred by the government. In this case the grantee should record the fixed assets and corresponding credits in the appropriate stockholders' equity accounts for the fair value of the assets received or of the shares of stock exchanged, whichever is the most accurately estimable.

13. Another type of transaction might involve the government transferring certain operating assets to the grantee for use in operations with the ownership title to those assets being retained by the grantor. The assets essentially become the grantee's operating assets. The assets should continue to be recorded in the accounts of the owner (that is, the government) and no assets would be recorded by the grantee. However, if the grantee believes that the best disclosure from an economic disclosure viewpoint would be to record the cost of the use of the assets through periodic depreciation charges, an acceptable alternative would be for the grantee to also record the value of the assets on its books. Depreciation should be calculated in the same manner as for the grantee's other fixed assets or as a function of the term of the contract, whichever is shorter. Further, a deferred revenue amount should also be recorded that is equal to the value of the assets and this deferred credit would be amortized using the same method as used to depreciate the assets. This methodology is justifiable on the following grounds:

(a) Such assets generate income for the grantee and not for the grantor and therefore the assets should be reflected on the books of the grantee. The government may receive income under the terms of the concession agreement in relationship to the depreciation expense. Therefore keeping the assets in the accounts of the grantor does not reflect the economic substance of the concession agreement;

(b) the grantee has control as well as usage of the concession assets similar to a financial lease transaction and therefore this control should be reflected in its records; and,

(c) concession agreements are usually for a long duration and the assets might have no value to the grantor at the end of the concession period.

14. The grantee should disclose in the explanatory notes to the financial statements, in addition to the general disclosure items referred to previously, information on the assets utilized, their book value, and their life expectancy. There also may be a provision for such assets to be returned to the grantor if the grantee becomes insolvent or under certain other contingent circumstances as specified within the concession contract. If this is the case, the information should also be disclosed.

15. A third type of transaction might be for assets to be transferred to the grantee free of charge. In this situation the fair value of the assets should be considered as a donation to the grantee and recorded as such. The general treatment for government donations is for the grantee to record the assets received at their fair value and also record a deferred income account which would be subsequently amortized as the asset is depreciated. However, in certain countries it is allowable to record donations in a special account in the shareholders' equity section entitled, "Donated Surplus" or some similar title. A description of the accounting followed should be included in the footnotes to the financial statements.

C. Maintenance of returnable assets

16. In order to be able to return assets used in the operation of a concession to a condition that is acceptable to the grantor in accordance with the concession agreement, or in order to be able to achieve optimal utility from concession assets, the grantee may need to currently or prospectively renovate and/or repair the assets. Such renovations may require large expenditures for materials, parts, labour and other costs which would affect the financial results of the operating enterprise, especially if the assets are not operational for an extended time period which would prevent them from being used to generate revenues. The grantee should make current period provisions for significant costs for the renovation and/or repairs prior to undertaking such actions. The provisions would then be reduced by the amount of costs incurred when the renovation and repairs are effected. The purpose of this method is to match properly the revenues and expenses in an accounting period by distributing the costs of renovation and repairs over the entire period during which the assets are used. This will result in a more accurate measurement of the net income of each accounting period.

D. Accounting for concession assets at the termination of the concession agreement

17. If the grantee has title to enterprise operating assets but they cannot be retained for its use in other activities, either because they must be returned to the grantor or because the assets have special uses or have no other commercial value to the grantee, the net book value of the assets should be written off of the grantee's accounting records. Property improvements to public land provided under a concession agreement fall into this category. If the grantee has estimated his or her operating costs reasonably accurately, the net book value of the assets would be zero at this point in time because the book value should be equal to the residual value which, in this case is zero, and the asset should have been fully depreciated over the duration of the contract. Therefore, only in the event of the miscalculation of the depreciation and amortization or an early cancellation of the concession contract would a net book value other than zero be expected.

18. In the event that the grantee is to be paid for the assets returned to the grantor or transferred to another enterprise having a new concession for the operations, the amount could be a specified value, the fair value (which is more frequently the case), or the net book value of the assets. Any difference between the amount to be paid and the net book value of the assets to be transferred should be recorded as a gain or loss in the appropriate accounting period. Losses should be recorded in the accounting period when they are reasonably estimateable. However, gains should not be recorded until the accounting period when their realization is certain.

E. Fees due by the grantee to the grantor as payment for supervision and other services

19. If the grantee is contractually obligated to make payments to the grantor for its services, such as for supervision, monitoring and control of the quality of the public services, such fees should be recorded as normal operating expenses of the concession enterprise when incurred.

III. BUILD/OPERATE/TRANSFER TRANSACTIONS

20. Build/operate/transfer transactions (commonly called "BOT" transactions) give the grantee the right to construct or buy and operate a certain public work. BOT transactions typically occur under a long term contract to construct infrastructure projects such as roads, rail roads, bridges, viaducts, dams, airports, tunnels, etc., which take several years to complete. These transactions are usually entered into as a means for the government to finance the construction of a public work. The grantee receives from the grantor the right to carry out

the specific project and be suitably remunerated. In this case, the remuneration received normally comprises the payment for the construction costs incurred and a profit margin. Sometimes the grantee is entitled to operate the public works project after its completion in order to generate income. The operating income enables the grantee to recover the construction costs and the operating and maintenance expenses and to earn a profit margin. The grantee normally would also be allowed to recover any amounts that was paid to the government for the concession rights. At the end of the term of the concession the project assets and operating rights are transferred to the grantor.

A. Costs

21. Costs incurred for the construction of public works might include:

(a) materials used in the construction of the project, depreciation of fixed assets used in the work, etc.;

(b) labour costs related directly to the specific contract, i.e. costs of labour on the construction site, including supervision;

(c) indirect costs such as insurance, technical assistance, and indirect construction expenses; and,

(d) general or overhead costs such as administrative expenses or financial costs.

B. Accounting for income earned from a concession

22. The operating revenues earned under a BOT contract should be recognized when it is possible to generate income through the provision of services, usually to third parties, and when the related costs and expenses have been incurred or can be estimated. Otherwise, payments received from governments and others should be deferred as liabilities (deferred or unearned income) and revenues should not be accrued into the profit and loss accounts for the accounting period.

23. When the grantee has the right to receive income from the operation of a public work after its construction the construction costs incurred should be charged to fixed assets accounts. For example, road construction where the income is generated from the right to collect tolls. In one of the largest BOT transactions in history, the grantees who are responsible for the construction of the tunnel which links the United Kingdom and France have until the year 2041 to recover their investment through operations before they have to turn the operations back to the grantors of the operating rights.

24. Income for the construction of a public work should be recognized using the "percentage of completion" method of accounting for construction projects if the amounts earned can be reasonably accurately estimated during the period of construction. As an alternative, if the amounts earned cannot be estimated reasonably accurately the grantee may use the "completed contract" method of accounting, which would mean that construction earnings would be recognized upon the conclusion of the construction phase of the contract when the work has been completed to the satisfaction of the government. These two methods of accounting are accrual methods, which mean that the recording of income would be made when earned according to the principles described in this paragraph regardless of when amounts become billable to the government for cash flow purposes -- either on an interim basis or on completion of the project.

25. To achieve a proper matching of costs incurred and revenues earned, all pre-construction and construction costs should be capitalized when incurred (meaning paid or an obligation incurred to make payments at a later date) into asset accounts in the records of the grantee. Such amounts would then be transferred to accounting period profit and loss accounts when the related income is earned

on the accrual basis. If this method of accounting is not followed, the profit and loss accounts in the years of concession operations might show only the expenses incurred, and thus losses; and the year in which revenues are received in cash would show the earnings, which might not have been earned exclusively in that year. Of course, if all of the construction is completed and the revenues are earned in the same accounting period, there would be no violation of the generally accepted concept of the matching principle of accounting.

26. In applying the "percentage of completion" method of construction accounting, there are two ways which may be used to estimate the revenues earned during accounting periods:

(a) costs incurred during the year as a percentage of the total estimated costs of the project; and,

(b) revenue recognized on the basis of a technical report on the extent of the project's completion.

The percentage of the proportion of completion in method (b) should be applied to the amount of the total revenue set forth in the concession agreement. Also, related pre-construction and construction period costs should be charged to the same accounting period's profit and loss accounts, whether or not such costs have been actually paid in cash. However, for large and complex public works, particularly those with sub-projects of variable durations, it may be difficult to use one single percentage of completion with respect to the entire project. In this situation the ratio of costs incurred over the year to the total costs of the works is the best method to be applied to the total agreed revenues for the construction phase.

27. The use of either of these two methods permits the income to be distributed among the periods in which the work is performed, or the costs are incurred, and results in a more accurate economic measurement over time of net income for each year or interim accounting period than recognizing all of the revenues and costs and expenses at the completion of the contract.

C. Accounting for advance payments

28. Cash advances received for services to be performed in the future should be recorded as liabilities since the payments represent an obligation by an enterprise to perform services at a later date. If for some reason this is not possible, the advances would have to be returned under normal circumstances. Advances received which exceed the income earned in the period should remain under the "liabilities" section of the accounts until the services are rendered or the advance payments have been returned.

D. Provision for losses

29. When a loss is incurred under a contract, whether from construction or from operation of the project, it should be immediately recognized by the grantee as an expense in the current accounting period.

E. Transfer of the public works assets to the grantor following the termination of the concession agreement

30. When the agreement states that the grantee should not be fully or partially reimbursed for the assets transferred to the government at the end of the contract period the grantee's compensation is the revenues from the operation of the concession. In this case the assets should be depreciated down to their net realizable value, if any, at the conclusion of the contract. Generally, the net book value upon disposal will be equal to the amount of the repayment since the rate of depreciation must take into account the residual value of the concession assets. Any difference from what was recorded would be recognized as a gain or loss from the revision of an estimate in the accounting period when determinable.

If the contract states that the asset should be transferred at fair value any difference between that amount and the net book value is recorded in the profit and loss account.

F. Disclosures

31. In addition to the appropriate disclosures referred to in previous paragraphs of this report, the notes to the financial statements of concessions for the construction of public works should include the total value of the assets, the stage of completion at the balance sheet date, and the method adopted to recognize revenues.

IV. CONCESSIONS FOR THE USE OR OPERATION OF PUBLIC ASSETS

32. A concession to use and/or operate public property assets (usually fixed assets) is normally for a specified purpose and period of time. The grantee may compensate the grantor for the use of the assets. The grantee normally has temporary possession over the property and should be liable for all the costs and expenses and risks of using the assets or operating the activity to which the concession relates. Concessions to use buildings near public roads such as service stations, restaurants, snack-bars etc., are examples of this type of arrangement.

33. Because ownership of the assets remains with the grantor the assets should continue to be recorded on the books of the grantor as fixed assets together with the corresponding depreciation charges. A concession for the use of the assets is similar to an operating lease contract which specifies that recording fixed assets in the accounts of the grantor is an appropriate accounting treatment. However, it may be that the term of the concession is equal to or in excess of the economic and/or physical lives of the assets in which case the grantee might record the assets and related depreciation expenses as if the transaction was being accounted for as a financing lease.

34. If the grantee makes improvements to the concession assets which are not subject to reimbursement from the grantor and which result in a longer life expectancy for the assets, the expenditures should be recorded as "improvements to third parties' property" and be reported with other fixed asset accounts. Such amounts should be amortized over the remaining term of the concession contract or the life of the assets, whichever is shorter.

35. If the concession agreement requires periodic payments for the use of the assets, such payments should be recorded appropriately and proportionately as operating expenses in the period in a manner which matches the costs with the benefits (revenues) obtained from the operation of the concession. If the payment is made in full at the beginning of the contract it should be reported as a fixed asset or prepaid expense and amortized over the period of the concession. If the grantee has recorded the assets as if under a financing lease, the offsetting liability would be periodically reduced by the payments made to the grantor of the concession. If the use of the assets is free of charge the grantee would only disclose the benefit in the notes to the financial statement of the enterprise.

36. Usually grantees are contractually liable for returning to the government the public property that they have been using in good condition taking into consideration normal wear and tear. Hence the grantee must routinely repair and maintain buildings and other long-lived assets. The grantee should make provisions during current operating periods for any large scale expenditures for repairs and maintenance that are expected to be required at some future date.

37. Similar to the disclosures referred to in the previous section of this report the terms of the agreement, the characteristics of the property or other

assets, the duration of the contract, the remaining term, obligations of the grantee and any restrictions on the use of the assets should be disclosed.

V. MANAGEMENT CONTRACTS

38. Under a management contract a grantor such as a government assigns the operation of a commercial activity to a grantee, usually referred to as the "manager" of the activity. The purpose of a management contract is to obtain a party to operate a public service on behalf of the government; the government is still considered to be providing the public service.

39. The grantor is usually responsible for all of the expenses required for the operation of an activity, including the acquisition of materials and other appropriate assets and any operating and non-operating costs. The function of the manager is to execute the project through scheduling, supervising, consulting, and controlling the works or technical services.

A. Revenues for services performed

40. Many concession contracts have a term that lasts a number of years and in some situations the compensation (fees) may be fixed at the outset, or may be earned in relation to the costs incurred (commonly called a "cost plus" contract). The fees may be stated in the agreement as a fixed amount or may be as a percentage of the costs incurred. If the income is received as a lump sum, it should be taken into the current period's profit and loss account as in the case of long term construction contracts, namely:

(a) using the percentage-of-completion accounting method;

(b) as a percentage of the costs incurred; or

(c) after all of the contractual obligations have been performed.

As explained in an earlier section of this report, the first and second methods are preferred.

41. If the remuneration is on a cost plus basis the accounting method is simplified since the revenues correlate directly to the costs incurred on an accrual basis.

B. Disclosures

42. The manager should disclose in explanatory footnotes to its financial statements the existence of the management contract and its terms and obligations, including the total value of the contracted revenue and the method used to account for it.

VI. OTHER PRIVILEGES AND BENEFITS BESTOWED BY GOVERNMENTS

43. This section considers various privileges and benefits which may be granted by governments to grantees. The accounting treatments and disclosures, where different from the items described above, are briefly described.

A. Licenses for engaging in certain forms of economic activities

44. A license is an authorization to carry out an economic activity. It is different from a concession because the latter contracts are related to assets and services to be used for public purposes. A license is a means by which a government can control the initiation and operation of an economic activity while providing for the security, health, safety and environmental protection of the citizenry. The licensee should disclose in the explanatory footnotes to the

financial statements the term of the license granted, the conditions to be complied with, and any possible difficulties that it may have or has had in meeting these conditions and the resultant consequences.

B. Licenses for manufacturing and distributing products in certain geographic areas

45. The granting of a license by itself does not create special accounting and reporting implications. Expenses are usually incurred on a periodic basis for such licenses and are typically relatively low and do not justify deferral as assets.

C. Agreements without tender offers

46. There are situations in which the government may purchase assets or hire services without tenders because: the value of the transaction is insignificant; it is an emergency purchase; there is a highly recognized level of specialization of a certain supplier; or there is a monopoly for the goods or services to be provided. For the enterprise selected the transaction represents a normal commercial transaction. If any discount or special pricing arrangements are provided, the benefit given to the government should be accounted for as a reduction of normal gross revenues in the profit and loss accounts of the period. If the transaction is significant to the enterprise, it should be appropriately disclosed in the notes to the financial statements.

D. Export and import privileges

47. An enterprise that receives import or export privileges should record transactions in accordance with the terms of the rights obtained in the profit and loss accounts of the period. These transactions may be a form of indirect government assistance, and it is difficult to quantify the benefit in monetary terms because the total sales may not vary in proportion to the import or export tariff. Should this form of assistance have any significant impact on the financial statements of the enterprise, the enterprise should disclose the existence of this assistance and its characteristics, in particular its duration.

E. Rights to extract natural resources

48. The receipt of the right to extract natural resources is sometimes preceded by feasibility studies. The studies usually estimate the volume of the resources that exist, the quantity to be extracted, the amount of the revenues expected from exploiting the resources, and the costs necessary to execute the project. All of the costs connected with investigating and obtaining the project should be charged to current profits and losses when incurred, or when there is a high probability of success the costs and expenses for the pre-extraction phase can be deferred for matching with the sales revenues obtained in later accounting periods. In the absence of this probability the enterprise should charge all such expenses to the profit and loss accounts of the period in which they were incurred.

49. If a project becomes operational the enterprise should report periodically the costs which have been capitalized in order to commence the removal process. The percentage of depletion of the costs incurred in connection with the project is normally based on the volume of the current accounting period's production to the estimated total reserves of the resources as of the beginning of the period. As an alternative accounting method this percentage may be expressed as a function of the time period during which the license holder has the right to exploit the resources. If the government receives in kind a portion of the production of the resources, any costs incurred by the enterprise related to the extraction or production of the government's share should be charged to the enterprise's profit and loss account for the period.

50. The enterprise should disclose in explanatory footnotes the size and stage of development of the project as well as the volume of the reserve of remaining resources in accordance with the latest survey, as reduced by subsequent quantities produced, removed or extracted from the properties.

F. Rights to acquire raw and other materials and services at preferential rates

51. This is another form of indirect government assistance. No special accounting treatment is required to record the benefits obtained unless costs are incurred. The enterprise should disclose in explanatory footnotes the existence and nature of the benefits, the duration of the agreement and the significance of the benefits on the financial results of the accounting period.

G. Leasing transactions including land, buildings and equipment

52. Leases between the government and a private enterprise normally represent an operating right for a public asset. Therefore the lessee of the asset should record the rental expenses in the period's income statement. The enterprise should disclose in the notes to the financial statements the existence of the lease, the assets involved, their value and the resulting financial obligations and duration of the contract.

H. Rights to operate services such as a television networks and radio stations

53. The rights to operate public services such as television and radio stations are often cancellable by the government if the enterprise does not follow certain specific operating rules. The cost of the rights may be charged to the profit and loss account or be capitalized as assets, if significant, in the accounting period in which the costs are incurred. All of the other costs usually relate to the services rendered and therefore they constitute operational costs of the period concerned. All of the costs of the property and equipment necessary to operate enterprises of this nature are capitalized and depreciated in the same way as for other operations. If the government charges a periodic fee for the license, this amount should be charged to the profit and loss account for that period. The enterprise that holds the operating rights should disclose the kind of service for which it was granted the license and its duration.

I. Tax benefits

54. Tax benefits represent a form of government assistance and are an economic advantage to an enterprise which has met certain criteria. Such benefits may represent temporary or permanent benefits. Sometimes the purpose of the tax benefits granted is to stimulate the national, regional or local economy through investments or to encourage more expenditures for research and development activities. Tax benefits are normally only available after compliance with certain conditions and requirements which have been pre-established by the government. The most common tax benefits are as follows:

(a) tax exemptions which thereby eliminate certain tax obligations;

(b) tax rate reductions which represent the proportional decrease in the amounts calculated to be due;

(c) tax credits which represents a reduction from a known tax liability;

(d) tax devolution which represents a refund, totally or in part, of taxes already paid by the recipient provided that the enterprise has met certain obligations, conditions and requirements; an example of such a benefit are so-called duty draw-backs for importing assets which will be subsequently included in other assets that will be exported;

(e) current deductions for certain capitalized costs, such as the accelerated depreciation of fixed assets over normal rates that reflect the economic usage or useful life of the assets; and,

(f) tax holidays, which are exemptions from taxes for a defined period of time.

55. The notes to the financial statements should disclose the existence of tax benefits obtained, the reasons why they were granted, the amount of the benefits and their expected duration.

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